



AUDIT & FINANCE COMMITTEE MINUTES

December 17, 2008

The Audit & Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on December 17, 2008 at 8:00 a.m.

COMMITTEE PRESENT

Scott Somers, Chairman
Dina Higgins
Kyle Jones
Christopher Brady, Ex-Officio

COUNCIL PRESENT

None

STAFF PRESENT

Bryan Raines
Debbie Spinner

1. Items from citizens present.

There were no items from citizens present.

2. Hear a presentation and accept the City's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2008.

City Controller Doug Yeskey addressed the Committee and reported that the above-referenced Comprehensive Annual Financial Report (CAFR) is the City's audited financial statements for the Fiscal Year ended June 30, 2008. He thanked the Print Shop for their quick turnaround in printing the document. Mr. Yeskey also expressed appreciation to his staff for their dedication and hard work in completing the CAFR in a timely manner.

Mr. Yeskey noted that the City of Mesa's CAFR for the Fiscal Year Ended June 30, 2007 received the Certificate of Achievement for Excellence in Financial Reporting, which is awarded by the Government Finance Officers Association. He explained that Mesa has received such recognition for 26 consecutive years and said he anticipates that the City would receive similar recognition for its CAFR for the Fiscal Year Ended June 30, 2008.

Mr. Yeskey introduced Carter Smitherman of Cronstrom, Osuch & Company, the Certified Public Accounting firm retained by Mesa to perform the audit of the City's financial statements.

Mr. Smitherman stated that his firm gave an unqualified opinion regarding the City's financial statements for the Fiscal Year ended June 30, 2008. He also provided a brief overview of each section of the CAFR. (The report is available for review in the City Clerk's Office.)

In response to a series of questions from Chairman Somers, Mr. Smitherman explained that the City's restricted net assets (referenced on Page 6 of the CAFR) are defined as any net assets that have been restricted by outside parties (i.e., grantors, bond covenants) and that such assets can only be used for specific purposes. He stated that net assets are divided into the following categories: investment in capital assets, net of related debt; restricted by outside parties; and unrestricted. Mr. Yeskey also noted that the City's investment in joint ventures (i.e., light rail, wastewater treatment plant with Phoenix) is included in unrestricted net assets and not available to be spent.

Mr. Smitherman referred the Committee to Page 18 of the CAFR, which provides a more detailed statement of the net assets, and commented that the accounting basis that is used for this statement differs from the accounting basis for governmental funds. (See Attachment 1)

In response to a question from Chairman Somers, Mr. Smitherman advised that the CAFR does not contain a schedule detailing the unrestricted net assets that are not part of the joint ventures. He noted, however, that such a listing could be compiled.

City Manager Christopher Brady directed the Committee to Page 3 of the CAFR. (See Attachment 2) He highlighted the following sentence: "At the end of fiscal year 2008, the City's governmental funds reported a combined ending fund balance of \$179.9 million, a \$2.4 million decrease from the previous year." He explained that such monies are the relied upon cash reserves that the City uses to operate under any kind of unusual circumstances or conditions. Mr. Brady also commented that this type of fund balance is reviewed by the rating agencies to determine whether Mesa has sufficient reserves in place.

Mr. Brady further referenced the following excerpt: "At the end of the fiscal year, the City's unreserved fund balance for the General Fund was \$50.3 million, or 12.7% of total General Fund expenditures, compared to \$57 million, or 16.4% of total General Fund expenditures the previous year." He noted that the Council adopted a financial policy to maintain a fund balance between 8% and 10% and said that the 12.7% amount is ahead of that goal. Mr. Brady added that due to the dramatic downturn in the economy, staff is working to ensure that the City's fund balance does not fall below 10% over the next three to five years.

Mr. Smitherman further highlighted the "City of Mesa, Arizona Single Audit Act Reports for Fiscal Year Ended June 30, 3008," which is generated when the City receives/spends more than \$500,000 in Federal expenditures during the year.

It was moved by Committeemember Jones, seconded by Committeemember Higgins, to recommend to the Council that the City's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2008, be accepted.

Carried unanimously.

Chairman Somers thanked everyone for the presentation.

3. Hear a presentation, discuss and provide direction on the following audits:

a. Adult Softball League Revenues Follow-up

City Auditor Gary Ray reported that this item is a follow-up review (A copy is available for review in the City Clerk's Office) of a 2007 audit that his department conducted of the Adult Softball League revenues. He explained that four Corrective Action Plans (CAPs) were recommended to the Parks, Recreation and Commercial Facilities (PRCF) Department to address the auditor's findings.

Mr. Ray commented that the objectives of the initial audit were to determine the extent of financial losses related to employee theft and to identify internal control weaknesses that might have allowed the theft to occur. He noted that the auditors who performed the follow-up review, as well as staff from the PRCF Department, were available to respond to any questions the Committee may have regarding this matter.

In response to a question from Chairman Somers, Deputy City Manager Bryan Raines explained that the PRCF Department acknowledged the recommendations identified in the CAPs and said that staff would work to resolve those issues. He advised that several of the recommendations would be addressed through the implementation of software enhancements and an upgraded version of RecTrac, the Department's registration software. Mr. Raines commented that staff has implemented significant improvements since the initial audit, and expressed confidence that they would continue to make additional adjustments to their processes to strengthen internal control measures.

Chairman Somers stated that the fact the PRCF Department responded to the initial audit's recommendations and removed program staff from the payment process and trained staff regarding the importance of internal control measures is commendable. He also commented that with the implementation of the upgraded RecTrac technology, it is imperative that the financial losses the City incurred two years ago are not repeated.

Discussion ensued relative to the fact that the previous Council directed that staff work toward full cost recovery for the Adult Sports Program; that staff considered the cost recovery percentages as a whole rather than for each individual league (i.e., basketball, volleyball); that not every program achieved full cost recovery; and that as a component of the PRCF Department's budget/operational adjustments, only two Adult Sports Programs (softball and flag football) would continue to be offered.

In response to a question from Committeemember Jones, PRCF Assistant Director J.D. Dockstader estimated that the new software for the RecTrac system would be implemented in two to three weeks.

Further discussion ensued relative to the fact that all PRCF Department employees, whether they handle cash or not, are required during their annual Performance Appraisal to sign an Employee Acknowledgement form confirming that they have reviewed and understand management's cash handling policy; the swim program registration process; and that the PRCF Department has created an internal process to conduct "spot checks" of those individuals who handle cash to ensure that everyone is in compliance with management's cash handling procedures.

Mr. Ray further advised that his office had begun conducting an audit of another Adult Sports Program. He noted, however, that the audit has since been suspended due to the elimination of the program as part of the PRCF Department's operational adjustments.

b. Fire Department Overtime

Mr. Ray reported that this item is an initial audit (A copy is available for review in the City Clerk's Office) and explained that five Corrective Action Plans (CAPs) were provided to staff. He thanked Senior Internal Auditor Jennifer Ruttman for her efforts and hard work with regard to conducting this audit. Mr. Ray noted that the Fire Department agrees with the recommendations and is in the process of developing detailed action plans to address each finding. He also commented that when his staff conducts a follow-up audit in 9 to 12 months, they will ensure that such action plans have been followed.

Assistant Fire Chief Dan Stubbs offered a brief overview of the audit's findings and the steps that the Fire Department plans to implement in order to address those findings. He explained that with regard to the Department's "constant staffing" model (maintaining just enough full-time staff to meet minimum staffing with no leave pool or extras to fill vacancies created by vacation, sick leave, training or light duty assignments), the audit revealed that if the Department continued with such a model, it would be necessary to increase the staffing leave pool to adjust to existing overtime issues. Chief Stubbs stated that even though it would mean an increase of full-time employees, the "break-over point" of what is being spent on overtime would be a cost benefit to the Department's budget.

Chief Stubbs also spoke regarding the complications that arise from employees switching back and forth between 56-hour and 40-hour schedules and the impact related to payroll and timekeeping errors. He said that employees would be required to attend training so that they become more aware of payroll and timekeeping errors and learn how to complete the necessary paperwork in a timely manner.

Chief Stubbs further addressed the issue of "special projects," wherein employees are asked to staff, for instance, flu shot/wellness clinics or assigned other projects, thereby resulting in vacancies on the various engine/ladder companies. He explained that the Fire Department is working on an action plan to address such concerns, including streamlining special projects and reassigning various staff personnel back into the field. Chief Stubbs added that pending the reorganization of the Fire Department, as presented to the Council last week, staff would begin to address the above-referenced issues.

Discussion ensued relative to the process by which employees switch between 56-hour and 40-hour schedules; and that the City Auditor's Office worked with Fire and Human Resources to develop an improved process for ensuring a timely transition between the two schedules.

In response to a question from Chairman Somers, Chief Stubbs stated that 13 recent graduates of the Fire Academy and nine staff personnel would be added to the leave pool, which would result in a cost savings with regard to the issue of overtime. He explained that with an increased number of employees in the leave pool, the Fire Department would have the opportunity to staff the Transitional Response Vehicles (TRVs) on a more regular basis. Chief Stubbs added that Ms. Ruttman has access to software that will assist the Fire Department in calculating "the correct balance" of employees to be included in the leave pool.

Further discussion ensued relative to the audit's recommendation that the Fire Department establish greater oversight concerning staff overtime; that the Department has taken steps to ensure that employees who are not officers cannot set their own overtime hours; that if it is necessary for an employee to work overtime in order to complete a project, the person must first obtain the approval of his or her supervisor; and various options that the Department is considering to address overtime for those employees who work in the field.

Chairman Somers thanked everyone for the presentation.

4. Adjournment.

Without objection, the Audit and Finance Committee meeting adjourned at 8:50 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit & Finance Committee meeting of the City of Mesa, Arizona, held on the 17th day of December 2008. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

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(attachments – 2)